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Classified By:
Principal Officer Douglglas Greene for reasons 1.4 (b) and (d)

[1](#)1. (C) SUMMARY: Conversations with members of Casablanca's business community reveal an underlying discord between the economic priorities of the Government (and Palace) and the expectations of Casablanca's businessmen and entrepreneurs. While most business professionals we spoke with support the King and monarchy, heads of small and medium enterprises (SMEs) complained that "unstated" palace policies favor large, palace-connected "national champions" at the expense of smaller companies. The business community is also generally dismissive of political parties, describing them as weak and ineffectual; however, business leaders expressed wariness of the increasing strength and popularity of Islamic parties and unofficial Islamic groups. The Party of Justice and Development (PJD) was cited by many private sector observers who worry that Morocco does not yet have sufficient constitutional controls in place to "limit the harm" of a potential PJD parliamentary victory in the 2007 elections.
END SUMMARY

[1](#)2. (SBU) Over the past several months we have held conversations with a range of businessmen, investment bankers, entrepreneurs and executives to discuss their views on Morocco's economic and political environment. The business professionals we spoke with represent both large industrial conglomerates as well as small enterprises. The following is a snapshot of their views, some of which contrast with those of other sectors of Moroccan society.

ECONOMIC POLICY AND THE PALACE

[1](#)3. (C) When asked their thoughts on the government of Morocco's (GOM) economic policy, Casablanca-based businessmen opined that policy is driven not so much by the GOM as it is by palace insiders. Within Morocco this system is described as "the Makzhen" (literally "treasury" in Arabic), referring to the domination of the political and economic spheres by a small core of elite connected to the palace. Observers contend that the Makzhen pursues a deliberate policy of "controlled competition" likened to the Chaebol system in Korea or the Keiretsu system in Japan. Chaebol/Keiretsu

systems are characterized by large, family-controlled corporate groups interlinked through share purchases and supplier relationships. Businessmen argue that a similar dynamic is at play in Morocco and that influential palace insiders pursue a self-serving policy of developing "national champions" at the expense of SMEs.

¶4. (C) According to some sources in the business and financial communities, the unstated policy is allegedly rationalized (privately) as the best means for Morocco to compete globally, promote economic activity and increase employment, much as the Chaebol/Kieretsu models played a key role in developing new industries, markets and export production in Asia. As evidence, a financial sector contact referenced recent consolidation in the banking sector. "Normally banking sector consolidation comes last to service industrial consolidation," the investment banker explained. "Here it happened first." Our contact argued that the recent merger creating Attijariwafa bank (Ref D) was motivated by the financial services needs of Omnium Norde Africain (ONA), the royally controlled conglomerate. "That merger was driven by ONA- a national champion that needed a national champion bank to support it," he explained. COMMENT: ONA does in fact control a majority interest in Attijariwafa Bank (Ref C). We have also identified an unusually intertwined relationship between ONA and Ynna Holdings, one of Morocco's largest and most successful family-controlled industrial and financial groups. END COMMENT

CORRUPTION

¶5. (C) Business attitudes toward governmental and other high-level corruption suggest the corruption is concentrated at the very top and the very bottom of the business and

governmental food chains. At the bottom end, most commonly cited corruption is small in scale as practiced by minor government bureaucrats and local officials. Business contacts insist that Morocco is not the type of country where one could "buy (or rent) a minister." That being said, at the top end, local businessmen complain bitterly of a more widespread corruption, larger in scale, and defined by insider trading and corporate collusion among palace insiders. Business contacts tell us this type of malfeasance is rampant, and illustrate it with colorful examples. One contact recounted a complicated (and apparently well-known) story of a son-in-law of the royal family who, using royal connections to obtain inside information, illegally pocketed more than US \$200 million in a single transaction. Owners of SMEs are not immune to financial malfeasance either, (albeit on a smaller scale), as many are well know for keeping two sets of books and feel they are "practically obligated and morally justified" in doing so.

THE ROLE OF THE KING

¶6. (C) Despite these criticisms, conversations with business leaders in Casablanca reveal widespread support for the monarchy and for King Mohammed VI (M6) in particular. Contacts tell us that they respect his "energies", credit him with improvements to the business environment and support his efforts toward economic liberalization. Even so, some are privately critical. One entrepreneur suggested the (relatively) new king lacks the confidence "to step back a bit" and let his technocrats work. "He has some good people in government", the businessman explained. "Jettou (the Prime Minister) is a businessman, he knows things. But do you notice the King never lets him speak (on policy)?"

¶7. (C) Most in the business community agree, however, that M6 is a notable improvement over his father, Hassan II and that Morocco today is "unrecognizable" from ten years ago. Even so, some remnants of the prior regime may have carried over. Hassan Chami, the controversial president of CGEM, Morocco's largest business association (Ref B), is believed to have upset the palace recently and is currently under investigation by the Moroccan tax authorities. Even some of his rivals within CGEM describe it as "retaliation."

Nonetheless, the progressively-minded young monarch, who as "Commander of the Faithful" retains authority on all things Islamic, is viewed by many business leaders as an essential backstop against growing Islamist influence both domestically and regionally.

PARLIAMENTARIANS AND POLITICAL PARTIES

¶8. (C) Business professionals are almost universally disdainful of parliamentarians and political parties. Contacts described Morocco's 30-odd political parties as "decoration", "disorganized", "useless", "vehicles for self-promotion" and "corrupt," (although not always in that order). "Too many parties controlled by too many personalities," said one contact. Businessmen noted that no political parties have economic agendas and very few parliamentarians have any business experience. Others complained that too often Parliament acts as nothing more than a "rubber stamp" for the king. "Look at how parliamentarians live," noted one local entrepreneur. "Fancy villas and beach houses- these guys are scholars, civil servants and lawyers, where do they get the money to afford that?" He went on to allege that the Palace "subsidizes" salaries of parliamentarians as needed. Another commented cynically that the Palace uses political parties "to keep the Americans off our back" about democratization. While most political parties are viewed by businessmen as weak and ineffectual, the Party of Justice and Development (PJD) emerges as a notable exception.

CONCERN WITH THE RISE OF ISLAMISTS

¶9. (C) There is growing unease among Moroccan business leaders with the increasing strength and popularity of Islamic parties and other "unofficial" Islamic groups. The recent election of Hamas alongside widely publicized local polls forecasting success of Islamic parties in Morocco's 2007 election have reinforced concern among business contacts. The PJD, Morocco's largest and most influential

legal Islamist party, has not publicly advocated any specific economic policies or proposals. However, local business leaders fear the adverse effect religious encroachment in the public sector will have on the business climate. "What will happen if they win?" one contact asked over dinner at a fashionable Casablanca restaurant, "Will they close this place (the restaurant), ban alcohol and cover women in the veil? No one knows." In contrast to most parties which are seen as disorganized, weak and in the pocket of the palace, the PJD stands apart. Entrepreneurs and investors worry that growing Islamic influence in the public sphere could negatively impact much needed foreign investment and frighten away tourists, both critical to maintaining foreign reserves and offsetting Morocco's negative balance of trade in goods. Business professionals confessed they would feel better if separation between religion and government were codified, but many do not believe Morocco has the time or political will to enact the constitutional controls necessary to "limit the harm" of a potential 2007 Islamic parliamentary victory.

¶10. (C) Reflecting these apprehensions, a number of business contacts, despite being overwhelmingly liberal and pro-western, expressed reservations about democratic liberalization for Morocco at this time. Business contacts we spoke with were at times surprisingly monarchist in their views, and questioned the appropriateness and timing of some democratic reforms. Many fear political results that could negatively effect Morocco's economic development and business climate.

¶11. (C) COMMENT: In general, the Casablanca-based business community is optimistic regarding Morocco's economic development, despite concerns of insider-dealing among the Makhzen and fears of Islamist political gains. Nonetheless many of these businessmen, investors and entrepreneurs work in Morocco by choice and should business climate conditions change adversely, many would be quick to relocate their careers and businesses elsewhere. While the King currently

retains the respect and support of the business sector, the cynical views of business leaders toward the political system and democratization is revealing and contrasts with the views of some other sectors of Moroccan society. In addition, the continued dynamic between SMEs and large conglomerates points to another cause of concern for the business community.

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